DRAM

DEMAND RESPONSE *and* ADVANCED METERING *Coalition*

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April 5, 2005

Mary L. Cottrell
Secretary of the Department
Department of Telecommunications and Energy
One South Station – 2nd Floor
Boston, MA 02110

Re: Service Quality Standards: DTE 04-116
Reply Comments of the Demand Response and Advanced Metering Coalition (DRAM)

Dear Ms. Cottrell:

The DRAM Coalition submits these Reply Comments in response to the request of the Department of Telecommunications and Energy (the "Department") for comments regarding service quality guidelines for electric distribution companies and local gas distribution companies. Our Reply Comments focus on the importance of allowing distribution companies to collect incentives for superior performance.

The DRAM Coalition is a diverse group of parties focused on providing information and education to policymakers and stakeholders on Demand Response and its enabling technologies. DRAM membership includes metering and communications technology companies, energy efficiency interest groups, and demand response product and service providers.

In its request for comments, the Department asked whether distribution companies should be allowed to collect incentives for SQ performance. DRAM submits that the answer to that question is a resounding "Yes."

As the Department is well aware, there exist today many new technologies that can bring about vast improvements in service quality. However, acquiring this technology requires an upfront investment in order to obtain the long term benefits. Absent the ability to earn an incentive for improved performance, there can be no clear path for the utility to recover the costs of that investment. As a result, without incentives, sticking with the old technology can appear to be a more appropriate course for utilities, even though it may not be in the best interest of the local or regional electricity system and its customers.

Massachusetts Electric Company, which has the opportunity to earn incentives under its current SQ plan, explained the critical role that incentives play in decisions to invest in new technology:

> Incentives also provide additional resources that can support improvements in SQ that may not otherwise be available under a long-term performance-based rate plan that has fixed revenues, such as that of the Company. For example, a new technology may be developed that improves a performance metric significantly, but at an additional cost. Under an economic analysis of the new program, the additional revenues resulting from a positive incentive would be available to support the up-front costs associated with the improvement. However, under an offset plan or a penalty-only plan, the economic incentive to make the up-front technology investment would be diminished and/or lost.
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> Because penalties can be avoided simply by doing business as usual, a penalty-only system will not be nearly as effective in promoting investments aimed at improving service for the benefit of customers.

Comments of Massachusetts Electric Company and Nantucket Electric Company, at 11 – 12.

The other distribution companies also described the link between incentives and investment in new technology. For example, the NSTAR Companies commented as follows:

> [I]t takes substantial investment to achieve improvements in service quality in excess of the deadband threshold of one standard deviation. With most performance measures, the utility may be able to make smaller, less costly changes to produce marginal improvements in the level of performance historically achieved by the utility. However, it is generally impossible to achieve performance that is greater than one standard deviation over the historical level without purchasing a new information system, installing new equipment or investing significant resources into distribution infrastructure and facilities. The availability of a financial reward would act to defray the cost of the investment required to achieve the service-quality improvement.

Initial Comments of Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company, and NSTAR Gas Company, at 29 – 30. See also, *Initial Comments of Western Massachusetts Electric Company,* at 8; *Initial Comments of Fitchburg Gas and Electric Company d/b/a Unitil,* at 10; *Initial Comments Of KeySpan Energy Delivery New England,* at 25 – 26; *Comments Of Bay State Gas Company to Order Opening Investigation,* at 9 – 10; *Comments of New England Gas Company,* at 25 – 26.

When it comes to demand response technology, this dynamic may be particularly present. Metering and other technologies that enable demand response also provide a number of other benefits in the areas of system operations and customer service. While the technology is “off the shelf” and available, it nevertheless can be more costly than maintenance of the status quo and require an investment approach by a utility. Given the multiplicity of benefits from demand response, incentives for technology can make the difference in whether they are captured or not.

Accordingly, DRAM recommends that the Department allow all distribution companies to earn incentives for superior SQ performance. The opportunity to earn incentives will spur investments in new technology, including those that help ensure that demand response is a vital part of the electricity market in Massachusetts as well as an option for customers to use in lowering their electricity bills.

Respectfully submitted,

Dan Delurey

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